

State of California

Memorandum



Date: July 17, 2013

To: Edward Randolph
Director, Energy Division

From: **Public Utilities Commission—** Kayode Kajopaiye, Branch Chief
San Francisco Division of Water and Audits

Subject: **Interim Financial, Management and Regulatory Compliance Examination Report on Southern California Edison Company's Energy Savings Assistance Program For period January 1, 2009 through December 31, 2010**

Except for the issues discussed below, Southern California Edison Company (SCE) demonstrated to a reasonable degree its compliance with Commission directives respecting the 2009 and 2010 Energy Savings Assistance Program (ESAP)¹ transactions examined by the Utility Audit, Finance and Compliance Branch (UAFCB) when it conducted the Financial, Management and Regulatory Compliance Examination of SCE's ESAP. UAFCB's examination was limited in scope and it included the Electric Appliance Program and General Administration cost categories, internal control and reporting.

A. Summary of Examination, Observations, and Recommendation

The following is a brief summary of UAFCB's observations and recommendations on the specific issues that the UAFCB took exception to during the examination. A detailed description of UAFCB's analysis and observations is included in Appendix A.

Observation 1: SCE failed to demonstrate compliance with Public Utility Code §§ 581 and 584.² In its 2009 annual report, SCE overstated the ESAP expenditures reported by a net amount of \$51,345.

Recommendation: SCE should reconcile all data and ensure that its reports are accurate before submitting them to the Commission. UAFCB should review this area in a future audit or examination.

Observation 2: With respect to the sample selected for substantive testing of this section of the examination, SCE demonstrated compliance with respect to its contractors maintaining required insurance and licensing.

Recommendation: None.

Observation 3: With respect to the sample selected for substantive testing of this section of the examination, SCE demonstrated compliance with respect to accounting for customers meeting the income requirements.

Recommendation: None.

¹ ESAP was previously known as the Low Income Energy Efficiency Program (LIEE)

² All statutory references are to the Public Utilities Code unless stated otherwise.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

Observation 4: With respect to the sample selected for substantive testing of this section of the examination, SCE demonstrated compliance with respect to accounting for its Electric Measures/Appliances expenditures, including policy and procedures.

Recommendation: None

Observation 5: With respect to the sample selected for substantive testing of this section of the examination, SCE demonstrated compliance with respect to accounting for its administrative costs.

Recommendation: None.

Observation 6: SCE failed to demonstrate compliance with D.08-11-031, as modified, with respect to its Energy Education. SCE provided and charged ESAP for energy education that was part of its door-to-door canvassing outreach activities. SCE's failure to demonstrate compliance was previously discussed by the UAFCB in its prior examination report and SCE continued these activities³ either from 2007 or before.

Recommendation: SCE should ensure strict adherence with Commission directives. SCE provided only energy education to customers whose dwellings didn't qualify for ESAP. SCE therefore should refund ESAP with shareholder funds for the amount it expended from 2007 to 2011 program years for unauthorized energy education. If SCE does not refund the monies voluntarily, the Energy Division or the Commission should require it to do so. If SCE included the customers who only received energy education as treated, it should re-file its annual report, corrected, to remove these customers from the treated category. If SCE doesn't voluntarily do so, the Energy Division or the Commission should require it to do so.

Observation 7: SCE failed to demonstrate compliance with the fund shifting requirements in D. D.08-11-031, as modified. SCE failed to request and receive authorization to shift \$4.5 million in funds from the 2009-2011 cycle to program year 2008.

Recommendation: SCE should ensure strict adherence with Commission directives. SCE inappropriately carried back \$4.5 million of funds from 2009 into 2008 when it didn't have Commission authorization to do so. SCE needs to refund ESAP with shareholder funds for the \$4.5 million it transferred without authorization. If SCE does not refund the monies voluntarily, Energy Division or the Commission should require it to do so.

Observation 8: UAFCB required SCE to demonstrate how its installers in the field implemented the new program requirements even though the P&P was not updated until August 2010. SCE did so in its comments on the Draft Interim Report provided by the UAFCB to SCE for comment.

Recommendation: None

Observation 9: SCE needs to demonstrate to UAFCB whether or not it implemented its recommendations from a prior examination report.

³ See pages 10-15 of UAFCB's report entitled "Financial, Management and Regulatory Audit Report on the California Alternate Rate for Energy Program Administrative Costs and the Low Income Energy Efficiency Program of Southern California Edison Company, for the Years Ended December 31, 2007 and December 31, 2008."

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

Recommendation: SCE implemented many of UAFCB's recommendations, however it would not agree to implement UAFCB's recommendation to refund the program for the energy education it provided to homes that didn't qualify for LIEE. SCE was not authorized by the Commission to provide customers whose homes didn't qualify for LIEE with energy education. With shareholder funds, SCE should refund the costs associated with providing energy education to homes that did not qualify for LIEE, other than receiving CFL, unless the participant received its energy education from Southern California Gas Company (SCG) or Pacific Gas and Electric Company (PG&E) and half of that education was billed to SCE by SCG or PG&E. If SCE does not refund the program voluntarily, Energy Division or the Commission should require it to do so.

Recommendation: SCE made some progress in not counting a home as treated in both years when it received LIEE measures in one year and energy education the next. SCE should reach out to all the regulated utilities in the overlapping service areas and leverage all program aspects, including energy education. SCE should not count a home as treated when all it received is energy education or energy education and compact fluorescent lamps.

B. Examination Process

Based on consultation with the Energy Division, UAFCB's prior experience in examining SCE's program, and the results of UAFCB's risk assessment, UAFCB focused its examination on the areas mentioned above and evaluated compliance with Commission directives and the established LIEE Policy and Procedures (P&P) Manual, dated August 2010. Additional details regarding UAFCB's examination processes and procedures are found in Appendix B and some pertinent information about SCE's ESAP is found in Appendix C.

UAFCB provided a copy of its analysis, observations and recommendations to SCE for its comment. UAFCB summarized SCE's comments, including UAFCB's rebuttal to those comments in Appendix A. SCE's response in its entirety is provided as a separate document.

C. Conclusion

Except for the items discussed above, SCE demonstrated compliance with Commission directives in the areas the UAFCB examined.

If you have any questions on UAFCB's examination, please contact Kayode Kajopaiye.

cc: Rami Kahlon, Director, Division of Water and Audits
Simon Baker, Energy Division
Hazlyn Fortune, Energy Division
Bernard Ayanruoh, Division of Water and Audits
Frederick Ly, Division of Water and Audits
Fred Kyama, Division of Water and Audits

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

Appendix A

Analysis and Findings

A.1 Introduction

Except for the deficiencies described below, Southern California Edison Company (SCE) demonstrated, to a reasonable degree, compliance with Commission directives regarding the 2009 and 2010 Energy Savings Assistance Program (ESAP)¹ in the areas that the Utility Audit, Finance and Compliance Branch (UAFCB) examined. UAFCB's examination included the Electric Appliance Program and General Administration cost categories, internal control and reporting. The directives that the UAFCB used to test compliance included, but were not limited to, Decision (D) 08-11-031, as modified, D.09-10-012 and the Low Income Energy Efficiency Policy and Procedures (P&P) Manual.² UAFCB's scope and methodology used for this examination are described in Appendix B, Examination Elements.

On January 24, 2013 the UAFCB provided a copy of its analysis, observations, recommendations and its summary of SCE's 2009 and 2010 ESAP to SCE for comment. On February 2013, SCE provided its comments in response to UAFCB's observations and recommendations. UAFCB includes a brief summary of SCE's comments and UAFCB's rebuttal to those comments for each observation, where applicable. SCE's comments in their entirety will be provided as a separate document due to the number of pages.

A.2 ESAP Electric Appliances

Observation 1: SCE failed to demonstrate compliance with Public Utility Code §§ 581 and 584.³ In its 2009 annual report SCE overstated the ESAP expenditures reported by a net amount of \$51,345.

Criteria: Sections 581 and 584 require that the utility provide complete and accurate data to the Commission.

Condition: The total annual expense that SCE reported in 2009 was overstated by \$51,345. The amount reported by SCE in its annual report was \$44,051,559 instead of the \$44,000,214 recorded in its accounting system. According to SCE, the net overstatement consisted of overstatements in the Electric Appliance program of \$87,320, Outreach and Assessment program of \$34,447, Home Education program of \$780 and an understatement of \$71,201 in the Weatherization program.⁴

Cause: SCE did not accurately reconcile the data it used to compile its 2009 annual report with its accounting information before reporting the ESAP data to the Commission.

¹Previously known as Low Income Energy Efficiency Program (LIEE)

² D.08-11-031, as modified by D.09-06-026 and D.09-10-029. The applicable P&P that UAFCB used for testing compliance was dated August 2010. The manual wasn't fully updated for the 2009 – 2011 program changes until August 2010.

³ All statutory references are to the Public Utilities Code unless stated otherwise.

⁴ UAFCB did not audit nor verify the variances and did not request SCE to provide explanations for the variances.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

Effect: Inaccurate data lessens the report's usefulness.

SCE Comments: SCE asserts that the reporting error was due to a transposition error. SCE points out that on November 19, 2012 it filed errata with the Commission to correct the error. SCE asserts that in 2011 it modified its reconciliation process to include an additional enhanced review of its final reconciled numbers and that it will continue to perform this final review and reconciliation on all reports submitted to the Commission.

Rebuttal: Modifying its reconciliation process is a good first step. SCE needs to ensure that its reports are accurate and not wait for the Commission to find any errors. Implementing the new reconciliation process, developing related necessary internal controls, ensuring staff that compile and review the reports are adequately trained in the new review process and making sure to enforce those new standards should create improvements in this area.

Recommendation: SCE should reconcile all data and ensure that its reports are accurate before submitting them to the Commission. UAFCB should review this area in a future audit or examination.

Observation 2: With respect to the sample selected for substantive testing of this section of the examination, SCE demonstrated compliance with respect to its contractors maintaining required insurance and licensing.

Criteria: According to the P&P Manual, contractors must meet, among other things, the following to participate in the program: Maintain current coverage for the following types of insurance during the effective periods, such as Workers' Compensation and Employer's Liability Insurance, Comprehensive General Liability Insurance, and Comprehensive Automobile Liability Insurance; and Comply with California State Licensing Board (CSLB) requirements for electrical, plumbing and Heating, Ventilation and Air conditioning (HVAC) and be in good standing with CSLB.⁵

Condition: The contractor files that the UAFCB tested contained all the necessary documentation to support their eligibility for participating in SCE's ESAP. UAFCB did not find any exceptions. In addition, UAFCB reconciled the balance of the inventory counts to the recorded balance at an on-site visit to one of SCE's facilities and did not find any exceptions.

Recommendation: None.

Observation 3: With respect to the sample selected for substantive testing of this section of the examination, SCE demonstrated compliance with respect to accounting for customers meeting the income requirements.

Criteria: The P&P Manual specifies eligibility requirements that had to be met by potential customers to participate in ESAP. These requirements included, among other things: that

⁵ See P&P Manual, contractor eligibility, pp. 81-82.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

customers have active utility accounts; customers' gross income are within certain levels; legal ownership or authorization from landlord, if necessary, on some measures; and not being a previous participant in ESAP.

Condition: The customers' files that the UAFCB tested contained all the necessary documentation and customers were found to be in compliance with the eligibility requirements. UAFCB did not find any exceptions.

Recommendation: None.

Observation 4: With respect to the sample selected for substantive testing of this section of the examination, SCE demonstrated compliance with respect to accounting for its Electric Measures/Appliances expenditures, including policy and procedures.

Criteria: Electric measure costs must be properly accounted for, and costs should be reasonable, relevant to ESAP and agree with the terms of SCE's contracts.

Condition: UAFCB found several appropriate supporting documents such as: invoices, receipts, and other relevant items. Payments reviewed had proper authorization and correct costing. SCE properly accounted for the expenditures that UAFCB reviewed. They were coded and accounted for by proper cost element and cost category. UAFCB did not find any exceptions.

Recommendation: None

A.3 Administrative Costs

Observation 5: With respect to the sample selected for substantive testing of this section of the examination, SCE demonstrated compliance with respect to accounting for its administrative costs.

Criteria: Administrative costs must be within budget and properly accounted for, and costs should be reasonable, relevant to ESAP and agree with the terms of SCE's contracts.

Condition: Transactions that UAFCB tested were found to be in compliance with the applicable terms of SCE's contracts, reasonable, and relevant to the ESAP. UAFCB did not note any exceptions.

Recommendation: None.

A.4 Energy Education

Observation 6: SCE failed to demonstrate compliance with D.08-11-031, as modified, with respect to its Energy Education. SCE provided and charged ESAP for energy education that was part of its door-to-door canvassing outreach activities. SCE's failure to demonstrate

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

compliance was previously discussed by the UAFCB in its prior examination report and SCE continued these activities⁶ either from 2007 or before.

Criteria: In D.08-11-031, Ordering Paragraph (OP) 22, the Commission requires that energy efficiency education must occur close in time to the installation of measures rather than in a vacuum. Furthermore, in OP 23, the Commission specifically prohibits SCE from providing education only kits not tied to measure installation and door to door canvassing to low income customers who might be ineligible for ESAP.⁷

Condition: In 2009, SCE enrolled 8,513 customers through the door-to-door canvassing outreach at a cost of \$153,234 and in 2010, enrolled 40,212 customers through door-to-door canvassing outreach at a cost of \$723,816. Based on the enrollment and cost data, the cost is \$18 per enrollment. SCE reported that it enrolled 100% of all the contacts it made through the door-to-door outreach activity and consequently may have provided these customers only with energy education and/or CFL and not all of them may have been qualified to receive LIEE.

Cause: Lacking strict adherence to the provisions of OP Nos. 22 and 23 of D.08-11-031, SCE conducted the unallowable door-to-door canvassing activities as part of the overall outreach program activities.

Effect: Due to the costs incurred in the door-to-door canvassing outreach activities, SCE may have improperly included costs not allowable per D.08-11-031.

SCE Comments: SCE asserts that in OP 23 of D.08-11-031, the Commission only addresses its proposal to distribute energy education kits containing CFL and did not prohibit it from providing energy education to income-qualified customers who did not receive any measures. SCE alleges that OP 22 which required that energy education only occur close in time to the installation of measures was only intended to prohibit SCE from implementing SCE's proposed Energy Education kits. SCE claims that the PPM Section 4.4 restricting energy education only to income-verified customers whose homes have passed the three measure minimum rule was ambiguous. In addition, SCE believes it was complying with §§ 2790, 381.5 and 739(e)(2) because the energy education it provided addressed the hardships facing low-income households. Lastly, SCE provides that the cost was minimal, only \$15 per customer. SCE claims that capricious and arbitrary UAFCB limitations on the provision of energy and safety education deny essential information to customers who need it.

Rebuttal: In D.08-11-031, OP 22, the Commission requires energy education to occur close in time to the installation of measures. If measures weren't installed, as in the case with SCE as discussed above, then energy education was not provided close in time to the installation of measures. In OP 23, the Commission clearly states that SCE is prohibited from providing

⁶ See pages 10-15 of UAFCB's report entitled "Financial, Management and Regulatory Audit Report on the California Alternate Rate for Energy Program Administrative Costs and the Low Income Energy Efficiency Program of Southern California Edison Company, for the Years Ended December 31, 2007 and December 31, 2008."

⁷ See D.08-11-031, OP Nos. 22 and 23, p. 221.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

its energy education kits and also [emphasis added] energy education and awareness to low income customers who might otherwise not be treated through LIEE due to the ineligibility for LIEE measures. By including the word "also," the Commission broadened its prohibition from just SCE's proposed kits to include customers whose homes were ineligible for measures.

Further evidence that the Commission clearly intended that SCE not provide only energy education to income-qualified homes that did not receive measures is contained in the discussion in the decision. In D.08-11-033, the Commission states:

However, we deny funding for energy efficiency education that occurs on its own and does not result in prompt LIEE measure installation. The IOU's responses to data requests the ALJ issued during the proceeding indicate that they are complying with this principle; with the exception of SCE... we question the efficacy of balkanized education efforts by individual IOUs, especially if they lead to no actual measure installation or concomitant energy savings.⁸

Each of these assessed and educated homes will receive energy efficiency measures, either immediately or through appointments.⁹

We disallow SCE's proposal for "door-to-door canvassing" structured to provide energy education and awareness to low income customers who might otherwise not be treated through LIEE due to ineligibility for LIEE measures.¹⁰

The Commission clearly did not approve SCE to provide energy education to income-qualified customers whose homes could not be treated due to the ineligibility for LIEE measures.

This policy was also clearly addressed in the PPM. Section 4.4 of the PPM clearly states and was not ambiguous when it required that In-home energy education will be provided to all income-eligible applicants whose dwellings require the minimum number of measures. The PPM did not state that the energy education could be provided to income-qualified customers whose dwellings were ineligible for measures. Only items explicitly stated as eligible in the PPM can be provided with ESAP funds.

In addition, pursuant to §2 of the PPM, to be eligible to participate in ESAP, the customer must, among other things, qualify by household income and the structure must qualify for measures. In the case where a customer is income-qualified but whose dwelling does not qualify, that customer is not qualified to participate in ESAP, including ESAP energy education. In D.12-08-044, the Commission itself stated that SCE's interpretation conflicts with the PPM.¹¹ Section 4.4 taken in conjunction with §2 clearly shows that SCE's interpretation is factually and legally incorrect.

⁸ See pages 53-54.

⁹ See page 55.

¹⁰ See page 58.

¹¹ See page 242.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

By providing energy education that wasn't authorized, SCE reduced funds available for customers who qualified both by income and home eligibility to receive measures. SCE may have counted customers whose homes didn't qualify to participate and who received only energy education as treated. If it did so, it artificially inflated the number of homes it reported as treated by these customers that only received energy education and whose homes were not treated.

The code sections SCE refers to provide that the Commission may require the utilities to provide the ESAP program. Those sections do not give carte blanche to SCE to use ratepayer funds to provide whatever it deems is appropriate. The Commission determines the policy and criteria for the implementation of ESAP. UAFCB is merely assessing SCE's compliance with Commission directives and is not capriciously and arbitrarily limiting SCE's authority to provide energy education.

Utilities often make contributions which are funded with shareholder and not ratepayer funds. In addition, SCE may solicit its ratepayers to make voluntary contributions to further assist SCE's low-income customers. If the provision of an energy efficiency measure or education is not approved by the Commission to be provided pursuant to ESAP, SCE may always provide additional measures or information to customers that it feels is critical to its low-income community with shareholder funds to boost its public image.

Recommendation: SCE should ensure strict adherence with Commission directives. SCE provided energy education to customers whose dwellings didn't qualify for ESAP and therefore should refund ESAP with shareholder funds for the amount it expended providing only the energy education from 2007 to 2011 program years. If SCE does not refund the monies voluntarily, the Energy Division or the Commission should require it to do so. If SCE included the customers who only received energy education as treated, it should re-file its annual report, corrected, to remove these customers from the treated category. If SCE doesn't voluntarily do so, Energy Division or the Commission should require it to do so.

A.5 Fund Shifting

Observation 7: SCE failed to demonstrate compliance with the fund shifting requirements in D. D.08-11-031, as modified. SCE failed to request and receive authorization to shift \$4.5 million in funds from the 2009 through 2011 cycle to program year 2008.

Criteria: In D.08-11-031, Ordering Paragraph (OP) 85, the Commission, among other things, addressed LIEE fund shifting. The Commission allowed certain types of fund shifting within certain parameters without the utilities having to secure additional authority, such as between the 2009-2011 budget cycle and a *future* budget cycle. However, the Commission did not authorize fund shifting between the 2009 budget cycle and the previous budget cycle, therefore, SCE needed to get Commission approval before shifting the 2009-2011 program funds to the previous cycle. In addition, in D.06-12-038, the decision addressing LIEE for 2007 and 2008, the Commission only permitted the carryover of funds from previous periods to the 2007-2008 budget period.¹²

¹² See D06-12-038, OP 15.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

Condition: In November 2008, SCE shifted \$4.5 million of the 2009-2011 authorized program funds back to 2008 and did not seek Commission authority before doing so.

Cause: SCE overspent the Electric Appliances budget for 2008 and failed to seek and receive Commission authority before shifting funds from the 2009-11 budget cycle for the same program to make up for the overspending in violation of Commission directive.

Effect: SCE unilaterally and without authority reduced funds available for the 2009-2011 program cycle.

SCE's Comments: SCE claims that in D.08-11-031, the Commission authorized SCE the flexibility to carry funds from the next cycle to the current, thereby allowing its one-time shift of \$4.5 million from 2009 to 2008 without getting additional Commission approval. SCE asserts that UAFCB misinterpreted the use of current and future cycles in that decision and that the current cycle is the program cycle being implemented and the next cycle is the one for which are being authorized for. SCE indicated that the Commission clearly used that approach for the Energy Efficiency program in several Commission decisions including D.05-09-043, OP 6 and quoted extensively from decisions addressing energy efficiency programs rather than ESAP.

Rebuttal: SCE's assertions are factually and legally incorrect. For program year 2008, in D.06-12-038, the Commission did not authorize the utilities to carryback funds from a future budget cycle.¹³ To modify the program requirements for year 2008, the Commission would have had to notice parties that it was modifying D.06-12-038 and explicitly state that it was doing so. Because the Commission didn't do so, the provisions of D.06-12-038 still applied and SCE needed to request authorization to carryback 2009 program funds to program year 2008 or otherwise request an augmentation of budget funds. SCE is well aware of the Commission requirements for modifying decisions. By September 2008, SCE should have been aware it would run out of funds before the end of the year and should have filed an advice letter to request the Commission to authorize additional funds for 2008 or to carryback funds from 2009.

In D.08-11-013, the Commission states that the utilities requested "authorization to carry forward and carry back funding *into* [emphasis added] 2009, 2010, and 2011."¹⁴ The Commission did not indicate that any of the utilities requested to carry back funds from 2009 into 2008.

In D.08-11-031, contrary to SCE's assertions, the Commission frequently referred to the 2009-2011 cycle as the present or current cycle. For example:

¹³ See D.06-12-038. It has been a long standing Commission policy to allow the utilities to carry forward funds but if the utilities needed additional funds for a program year, they needed to file a petition to modify or file an advice letter to seek Commission approval to do so. See, e.g., in addition to D.12-12-038, Resolution E-3586, D.01-05-033, D.02-12-019, D.05-04-052, and D.05-12-026.

¹⁴ See page 164.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

- ...carry over funds from previous periods to the 2009-11 budget periods...¹⁵
- This means that near the end of September of each year, the utilities should have a good idea of whether they have spent close to 75% of their authorized budget in each program department for the current [emphasis added] program year. If there is potential for a serious shortfall in either category, no more than 5% over budget, a timely and forthcoming Advice Letter filed at the beginning of October should, without protest, become effective within 30 days.¹⁶
- Long term projects that require funding beyond the three year program cycle; commitment of funds from the next program cycle to fund programs that will not yield savings in the current cycle [emphasis added].¹⁷

In OP 85, of D.08-11-031, the Commission allowed fund shifting for LIEE of “next cycle funds in the current budget cycle” with the current budget cycle being the 2009-2011 budget cycle.

At a minimum, because of the Commission's retroactive ratemaking policies and that D.08-11-031 wasn't effective until November 6, 2008, any funds SCE accrued for ESAP before November 6, 2008 that were over its approved budget could not be funded with any carryback funds from 2009-2011 cycle.

Consequently, SCE did not have Commission approval to shift funds from the 2009-2011 program cycle into 2008. Because it didn't have Commission approval to do so, it needs to refund ESAP with shareholder funds for the \$4.5 million it shifted back into 2008 without Commission authorization. By transferring these \$4.5 million in funds without authorization, SCE shortchanged the money authorized for 2009-2011 budget cycle by a material amount.

Recommendation: SCE should ensure strict adherence with Commission directives. SCE inappropriately carried back \$4.5 million of funds from 2009 into 2008 when it didn't have Commission authorization to do so, and needs to refund ESAP with shareholder funds for the \$4.5 million it transferred without authorization. If SCE does not refund the monies voluntarily, Energy Division or the Commission should require it to do so.

A.6 P&P Manual

Observation 8: UAFCB required SCE to demonstrate how its installers in the field implemented the new program requirements even though the P&P was not updated until August 2010.

SCE Comments: SCE asserts that until the P&P is officially updated by the Commission, it updates its Program Contractor's Manual to document new program

¹⁵ See page 163.

¹⁶ See page 169.

¹⁷ See page 162.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

requirements before the P&P update is complete. In addition, when the Commission makes changes to the program, it emails its contractors special notices or bulletins about the changes and stores such notices in a database for contractor review.

Rebuttal: None

Recommendation: None

A.7 Prior Examination Recommendations

Observation 9: SCE needs to demonstrate to UAFCB whether or not it implemented its recommendations from a prior examination report.

SCE Comments: SCE listed the eight UAFCB recommendations from UAFCB's last report and responded to each.

- 1) To facilitate any subsequent review for compliance with Public Utilities Code § 2790(b)(2), SCE should be required to track and disclose information in its annual reports about:
 - a. How many of its LIEE participants received gas from other regulated utilities; and
 - b. How many of its LIEE participants received LIEE weatherization services from another regulated utility.

SCE Comments: SCE made improvements in this area and asserts that beginning with program year 2009, it is reporting how many of its ESAP eligible customers are in shared service territories with Pacific Gas and Electric Company, Southern California Gas Company (SCG) and San Diego Gas & Electric Company and how many of its eligible customers have been treated by both SCE and another regulated utility. SCE points out that it and the other utilities are not required to report how many homes it treated that did not receive weatherization by other utilities.

Rebuttal: None.

- 2) SCE should be required to maintain substantiation for any of its LIEE customers that received weatherization services from another utility based on a referral to or from these other utilities.

SCE Comments: SCE asserts that it does not have authority to require the other utilities to provide the information.

Rebuttal: None.

- 3) If the Commission permits utilities to provide CFL as part of the home assessment even when the home doesn't qualify for LIEE, the Commission should consider requiring the utilities to report homes provided CFL that fail to qualify for LIEE as outreached and not treated.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

SCE Comments: SCE points out that the Commission does not authorize CFL to be provided to homes that do not meet the three-measure rule.

Rebuttal: None.

- 4) SCE should refund the costs associated with providing energy education to homes that did not qualify for LIEE, other than receiving CFL, unless the participant received its energy education from Southern California Gas Company (SCG) or Pacific Gas and Electric Company (PG&E) and half of that education was billed to SCE by SCG or PG&E.

SCE Comments: SCE asserts it was in compliance with the Commission directives in 2007-2008.

Rebuttal: As discussed in UAFCB's audit report, SCE failed to demonstrate compliance with §§2.9 and 4.4 of the PPM when it only provided energy education.¹⁸ SCE still needs to refund the costs associated with providing energy education to homes that did not qualify to participate in LIEE 2007 and 2008.

Recommendation: SCE was not authorized by the Commission to provide customers whose homes didn't qualify for LIEE with energy education. With shareholder funds, SCE should refund the costs associated with providing energy education to homes that did not qualify for LIEE, other than receiving CFL, unless the participant received its energy education from Southern California Gas Company (SCG) or Pacific Gas and Electric Company (PG&E) and half of that education was billed to SCE by SCG or PG&E. If SCE won't refund the program voluntarily, Energy Division or the Commission should require it to do so.

- 5) To maximize LIEE funds for treating qualified low-income customer homes, the Commission should evaluate whether to require the utilities to fund CFL disbursement to income-qualified customers whose homes don't qualify for LIEE out of their energy efficiency or other funds.

SCE Comments: SCE disagrees with UAFCB's recommendation. SCE points out that the CFL issue is moot because the Commission does not permit the dispersal of CFL unless a home meets the three measure rule and other ESAP requirements.

Rebuttal: UAFCB agrees that the issue is now moot.

- 6) The Commission should evaluate SCE's process to record homes as treated in one year and record those homes' energy education in the following year.

¹⁸ See UAFCB's report entitled "Financial, Management and Regulatory Compliance Audit Report on the California Alternate Rate for Energy Program Administrative Costs and the Low Income Energy Efficiency Program of Southern California Edison Company for the Years Ended December 31, 2007 and December 31, 2008," dated June 17, 2011.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

SCE Comments: SCE asserts that it and SCG made strides to improve in this area in 2010 by expanding the list of energy education service providers that provide education in the overlapping areas, allowing each utility to be billed directly by the vendor, reducing the time the bill for the services is outstanding. In addition, SCE claims that it and SCG are currently working on a process for automating the process by matching energy educated customers and updating each utility's respective databases.

Rebuttal: Working with SCG to improve reporting in the energy education area is a good first step. For well over a decade now, the Commission has promoted leveraging because it benefits both the ESAP customers and ratepayers. In terms of leveraging energy education, it appears SCE is pursuing that with SCG and if implemented and enforced, this could improve when SCE reports its energy education. SCE did not indicate whether the data sharing project is part of an overall leveraging strategy. Referrals back and forth for all measures with SCG, including energy education, should bring SCE into alignment with the Commission's leveraging policy, improve SCE's overall program and benefit ESAP customers and ratepayers.

In addition, SCE needs to reach out to the other regulated utilities in the overlapping service areas to develop similar sharing arrangements to ensure ESAP customers receive all possible measures within a reasonable time frame so that joint energy education occurs in all of its overlapping service areas and the prompt recording of the shared education.

An overriding issue with SCE's energy education, in both this and UAFCB's former report, is that SCE over inflates the number of treated homes by:

- a) Counting homes as "treated" when all the customers received from SCE was joint energy education.
- b) SCE may treat a home with ESAP measures that was previously counted as treated by SCE in a previous year when it only received joint energy education and then count that home as treated a second time when it installs the ESAP measures.
- c) Counting homes as treated in the year SCE treats them and counting them again in a subsequent year when billed for the energy education by another utility.

Recommendation: SCE should reach out to all the regulated utilities in the overlapping service areas and leverage all program aspects, including energy education. SCE should not count a home as treated when all it received is energy education.

- 7) SCE should perform periodic risk assessments and conduct audits of the LIEE program when it is warranted in an effort to improve internal controls and enhance program oversight.

SCE Comments: SCE performed an annual risk assessment in 2009 and 2010 and based on the results of its risk assessment, did not perform an audit in each of these years.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

Rebuttal: SCE did not indicate whether it performed a risk assessment for auditing its 2011 or 2012 ESAP program years.

- 8) Within 30 days from the date of this report, SCE should provide UAFCB with a list of particular risks that would trigger SCE to conduct an audit of its LIEE.

SCE Comments: SCE provided UAFCB a list of risks that would trigger SCE to conduct an audit of the LIEE on July 28, 2011.

Rebuttal: None.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

Appendix B

Examination Elements

B.1 Introduction

The Utility Audit, Finance and Compliance Branch (UAFCB) initiated this examination by sending an engagement letter, dated March 6, 2012, to Southern California Edison Company (SCE). UAFCB representatives visited SCE's office in Rosemead, California on different occasions, met with SCE's management and staff, and reviewed original supporting documentation. UAFCB completed its fieldwork on October 25, 2012.

B.2 Authority

Public Utilities Code § 900 states,¹ among other things, that the Commission may conduct compliance and financial audits to ensure compliance with any Commission order or resolution relating to the implementation of programs pursuant to §§ 739.1, 739.2, and 2790.² Accordingly, UAFCB conducted a compliance attestation examination of SCE's 2009 and 2010 Energy Savings Assistance Program (ESAP).³

B.3 Goal

UAFCB conducted this examination to verify whether SCE was in compliance with the Commission's ESAP requirements and directives, including Commission decisions, the Commission's Program and Procedures (P&P) Manual, related Rulings and guidelines, as well as SCE's established internal accounting controls pertinent to the program.

B.4 Standards

UAFCB conducted its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence concerning SCE's compliance with the requirements noted above and performing any other procedures as we considered necessary in the circumstances. UAFCB believes that its examination provides a reasonable basis for an opinion. Our examination does not provide a legal determination on SCE's compliance with specified requirements.

B.5 Scope

UAFCB's examination was limited in scope. Based on consultation with and concurrence by the Energy Division, UAFCB primarily focused its examination on SCE's ESAP Electric Appliance and General Administrative costs recorded in the 2009 and 2010 program years. In addition, UAFCB examined the relevancy of reported data, the adequacy of SCE's ESAP 2009 and 2010 internal controls and whether SCE implemented UAFCB's recommendations from prior examinations.

¹ All statutory references are to the Public Utilities Code unless stated otherwise.

² Sections 739.2 and 2790 provide guidelines for the Commission's low income energy efficiency program. Section 739.1 applies to the Commission's energy rate assistance program for low income customers.

³ ESAP was formerly referred to as the Low Income Energy Efficiency Program or LIEE. In D.08-11-031, as modified, and D.09-10-012, the Commission mandated that the utilities develop a new statewide name and brand identity for the LIEE program. In 2010, LIEE's name was changed to ESAP.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

B.6 Objectives

UAFCB's overall objectives were to determine whether:

1. SCE complied with the Commission's ESAP directives, including the P&P Manual when enrolling customers and providing and/or installing electric appliance measures to those customers;
2. Electric Appliance expenditures reimbursed to program contractors and vendors were in accordance with the terms of the SCE's contracts;
3. SCE's General Administration expenses were appropriate, relevant to the program, and in accordance with the terms of SCE's contracts;
4. SCE complied with its data reporting and its internal control policies and procedures relevant to ESAP; and
5. SCE implemented UAFCB's recommendations from prior examinations or provided a reasonable basis for not doing so.

B.7 Methodology and Testing

a) Preplanning Analysis

UAFCB conducted a pre-planning analysis to identify potential areas that should be addressed during its examination. The analysis included a review of the following:

- UAFCB's Audit Report on SCE's 2007 and 2008 LIEE;
- D.08-11-031 and its relevant amendments, in which the Commission, among other things, established authorized spending levels for the ESAP 2009-2011 program cycle;
- SCE's 2009 and 2010 LIEE Annual Reports filed with the Commission;
- SCE's expenditures in the ESAP categories and sub-categories; and
- SCE's relevant internal audit findings and internal accounting control policy and procedures.

b) Risk Assessment

Following the pre-planning analysis, UAFCB performed a preliminary risk analysis based on SCE's responses to UAFCB's Internal Control Questionnaires (ICQ) to determine specific areas for audit or examination emphasis. UAFCB reviewed the following:

- SCE's ESAP authorized budget;
- SCE's reported ESAP expenses as shown in, among others, Tables 1 and 19 of SCE's Annual Reports filed with the Commission; and
- ESAP expenditures recorded in SCE's balancing account which included, but were not limited to, ESAP data as recorded in SCE's general ledger.

UAFCB performed a comparative analysis of the budgets and actual expenditures by cost category and subcategory for each program year to determine which expenses were over and under the authorized budget.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

c) Electric Measures Analysis

Contractor eligibility and operations: UAFCB judgmentally selected and examined 10 of approximately 30 contractors participating in ESAP for program years 2009 and 2010 to determine if SCE complied with eligibility requirements as stipulated in the P&P Manual.⁴ UAFCB reviewed applicable documentation to ascertain whether the sampled contractors had current insurance coverage and a valid California contractor license. The following are the different types of required insurance coverage: comprehensive general liability; automobile liability; worker's compensation; and employer's liability.

UAFCB staff also conducted an on-site visit at one of the contractor warehouses. This site visit enabled UAFCB to: observe the contractor's operations; interact with the contractor's management; tour the warehouse facility; and observe and conduct physical inventory counts.

Customer enrollment eligibility: UAFCB judgmentally selected 80 customer files from 2009 and 2010 and tested the files to determine if SCE complied with the customer enrollment eligibility requirements set forth under the P&P Manual.⁵ UAFCB performed, among other things, the following examination procedures:

- Examined customer applications, installation reports and supporting documents.
- Re-entered information of serviced customers in the SCE ESAP database and workflow management system (WMS), part of the Energy Management Assistance Partnership System (EMAPS), to determine if the WMS can prevent duplicate transactions or previous participants from re-enrollment.
- Reviewed property ownership documents, such as property tax, mortgage, or insurance records.
- Reviewed income documentation, such as customer payroll checks, bank statements, paystubs, and other applicable support.
- Reviewed the nature of the installed electric measures/appliances and compared the customer address with the climate zone requirements in the P&P Manual.
- Reviewed home assessment forms, installation reports, energy savings for the installed equipment to verify whether all measures that were determined feasible were installed and whether installations were in compliance with the three minimum rules, as modified.⁶
- Interviewed SCE's staff about the customer eligibility process assessment and the detailed presentation provided by its staff on the operation of the ESAP/EMAPS information management system.

Electric measure expenditures: For 2009, UAFCB judgmentally selected and examined 59 expense transactions valued at \$2.2 million or 6% of the total recorded electric appliance expense of \$34.6 million. UAFCB also selected and tested 53 transactions for 2010 valued at

⁴ P&P Manual, contractor eligibility, pp. 81-82.

⁵ P&P Manual, customer and structural eligibility, pp. 9 to 23.

⁶ Essentially, the "three minimum rule," as modified, allows the installation of less than three measures provided that the energy savings achieved meet the minimum savings established by the Commission of at least 125 kWh/annually or 25 therms/annually.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

\$5.6 million or 11.5% of the total recorded expenditures of \$48.9 million. In the following table, UAFCB presents a summary of the tested transactions.

Table B-1		
Tested Transactions		
Examination Period: January 1, 2009 through December 31, 2010		
Contractor name	2009	2010
Sales Tax Payments To Various Counties	\$ -	\$3,625,170
Tri State Home Improvements Inc.	-	689,369
Air Conditioning Refrigeration	1,125,860	399,993
Energy Efficiency Resources, Inc.	395,943	327,451
Sears Commercial	56,894	130,373
Harrison John Contracting Inc.	165,202	113,429
Baker Distributing Company LLC	132,603	107,361
Peace Officers For A Green Environment	-	54,856
Reliable Energy Management Inc.	-	45,919
Gary's Swimming Pool Supplies	-	44,822
Proteus Inc.	87,443	34,480
Fess, LLC	-	13,375
Community Action Partnership San Bernardino	31,360	-
Tri State Home Improvements Inc.	200,880	-
Total Amount Tested	<u>\$2,196,185</u>	<u>\$5,586,598</u>

Among other things, UAFCB performed the following procedures:

- Reviewed appropriate supporting documentation such as invoices, receipts, and other relevant documents.
- For payments to contractors supplying electric appliances/measures; reviewed payments for proper authorization and correct costing.
- Reviewed documents to verify if SCE properly accounted for expenditures. Determine whether they were coded and accounted for by proper cost element and cost category.

d) ESAP Administrative Costs Analysis

UAFCB judgmentally selected and examined 46 and 55 detailed recorded transactions for the respective program years 2009 and 2010. The values of the transactions selected were \$940,317, or 30% of the \$3.1 million in administrative costs in 2009 and \$1.3 million, or 31.7% of the \$4.1 million of administrative costs for 2010. In the following table, UAFCB presents a summary of the tested transactions.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

Table B-2
Tested ESAP Administrative Expenses
Examination Period: January 1, 2009 through December 31, 2010

Cost Element	2009		2010	
	Amount	%	Amount	%
Data collection Services	\$ 19,736	2%	\$ 240,600	18%
Information System professional Services	196,976	21%	204,891	15%
General support Services	11,625	1%	177,254	13%
Graphic Print	174,719	19%	165,023	12%
Copying, Printing and Graphics Services	0	0%	152,347	12%
Customer Education	0	0%	88,525	7%
Overhead Absence	65,693	7%	75,477	6%
Postage/Delivery	176,521	19%	73,405	6%
Marketing Professional Services	227,461	24%	61,928	5%
Graphics- Chargeback Copying	0	0%	56,645	4%
Customer communications	0	0%	13,405	1%
Manager	13,454	1%	12,743	1%
Advertising/Media	43,348	5%	0	0%
Temp/Support Trade	10,785	1%	0	0%
Total Amount Tested	<u>\$940,318</u>	<u>100%</u>	<u>\$1,322,243</u>	<u>100%</u>

Among other things, the UAFCB performed the following examination procedures:

- Reviewed the appropriate supporting documentation to ensure that the recorded expense transactions were proper and relevant to ESAP.
- Compared the descriptions of the rendered services or products for proper accounting, such as proper expense classification in the appropriate cost category.

e) Implementation of Prior Examination Recommendations

Expenses related to Energy Education: One of the concerns the Energy Division raised to the UAFCB before the examination involved SCE's energy educational expenses. In response to Energy Division's concern as well as to determine if SCE implemented UAFCB's recommendation in this area from a prior examination, UAFCB performed the following procedures:

- Scanned and extracted the data dump cost elements with a description of customer education for further analysis in both program years.
- Analyzed items labeled as customer education as shown in the data dump/general ledger.
- Obtained explanations from SCE regarding the nature of the educational activities.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

Table B-3
Customer Education
Examination Period: January 1, 2009 through December 31, 2010

Cost Element Description	2009	2010
Enrollment & Assessment	\$4,036,910	\$7,728,274
Energy Education	526,994	1,340,493
Outreach	200,997	926,007
Electric Appliances (DI)	680	1,029
Weatherization	85	(420)
Total	<u>\$4,765,666</u>	<u>\$9,995,383</u>

According to SCE, the nature of activities performed under each of the above expense items were:

Enrollment and assessment-This involved gathering information to verify customer income eligibility and evaluating homes to determine the customer's eligibility for specific measures.

Energy Education-This involved educating customers about the cost of energy, benefits of energy conservation measures and practices, and energy and appliance safety. The commencement of this process was usually at the time of customer assessment by highlighting and going over specific topics in the Energy Education Guide. SCE indicated that this process continued up to the time of installations, when customers were provided with information about operating the equipment, maintenance and warranty.

Outreach-This process involved recruiting customers using various tactics such as: door-to-door canvassing, community specific advertising; local community participation; and out bound calling campaigns⁷. SCE paid a flat fee of \$18 per customer contacted for its outreach activity.

SCE indicated that it had engaged in some door-to-door canvassing outreach activities, which it claimed resulted in ESAP enrollment. D.08-11-031, OP Nos. 22 and 23 impose certain restrictions on the educational door-to-door activities and the reported costs of Customer Education, under which the door-to-door activities fall.⁸

⁷ Per SCE's response to the data request, SCE-ESAP0910-010, Q&A01c.

⁸ D.08-11-031, OP Nos. 22 and 23, page 223.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

Appendix C Program Compendium

C.1 Introduction

On November 6, 2008, the California Public Utilities Commission (Commission) issued Decision (D.) 08-11-031, as modified by D.09-06-026 and D.09-10-029, and D.09-10-012 that, among other things, authorized Southern California Edison Company (SCE) a total budget of approximately \$185.2 million in ratepayer funds to administer and implement its Energy Savings Assistance Program (ESAP) for the 2009-2011 program budget-cycle.¹

C.2 ESAP Funding Components

Based on Attachments A and E to D.08-11-031, as modified, of the authorized \$185.2 million budget for the 2009-2011 program budget cycle, the Commission earmarked \$164.4 million, or 88.8%, for energy efficiency measures and \$13.4 million or 7.2% for General Administration. The remaining \$7.4 million, or 4%, was allocated among the following six cost categories: 1) Training Center; 2) Inspections; 3) Marketing; 4) Measurement and Evaluation; 5) Regulatory Compliance; and 6) CPUC Energy Division. The Commission ordered the utilities to carry forward an unused \$600,000 to program year 2009, which had been originally authorized in D.06-12-038 for an Impact Evaluation Study.²

In the following table, UAFCB shows the amounts SCE reported in its annual reports as carried forward, authorized, available for spending, and spent during budget years 2009 and 2010.

Table C-1
ESAP Program, as Reported by SCE
Examination Period: January 1, 2009 through December 31, 2010

Description	2009	2010
Balance Carry-Forward	\$ -	\$11,741,785
Authorized Budget per D.08-11-031	60,242,000	61,561,082
Less: Fund shifting to 2008	4,500,000	-
Available for Spending	55,742,000	73,302,867
Less: Expenditures	44,000,215	65,126,069
Carry Forward	<u>\$11,741,785</u>	<u>\$ 8,176,798</u>

It is not clear to the UAFCB if the \$180,000 that the Commission ordered SCE to carry forward from the prior program year for an Impact Evaluation Study was included in the Authorized Budget amounts shown in the table above. It would be appreciated if SCE can clarify to the UAFCB whether the \$180,000 carried forward for the Impact Evaluation Study was included by the Commission or not in the authorized budgets, as shown in the table above. SCE should provide the information to UAFCB 90-day after it receives this memo report from it for redaction of confidential matters.

¹ Previously known as Low Income Energy Efficiency or LIEE.

² Per D.08-11-031, OP 69, pp. 228-229, the unspent Impact Evaluation carried over to 2009 applicable to SCE was \$180,000.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

Generally, the Commission allowed fund shifting of up to 15% of the authorized budget between program years, within and without the program budget cycle, and between the various cost categories and subcategories without prior written approval from the Administrative Law Judge (ALJ), except for items into or out of different program categories, into or out of the Education category, or between the gas and electric departments.³ Any funds shifting associated with the exception items required a prior written approval from the ALJ.

According to its annual reports, in 2009, SCE spent \$44 million or 73% of its authorized budget and shifted \$4.5 million from the 2009-2011 program budget cycle back to 2008 to enable continuous program operations. SCE did not obtain Commission or ALJ approval for this fund shifting. In 2010, SCE spent \$65 million or 106% of the program year's authorized budget.

According to its annual reports, SCE spent about \$34.6 million, or 78.3% of its 2009 budget and \$48.9 million, or 75.1% of its 2010 measure expenditures, on electric appliances/measures. Refrigerator replacements constituted the largest portion or approximately 40% of the overall expense. In 2009 and 2010, the combined expense on refrigerators, evaporative coolers, Central A/C, Pool pumps and CFLs represented about 95% of the total electric appliances/measures expenditure. The second most significant expense was on outreach and assessment, which accounted for approximately \$4.2 million, or 9.5% of its 2009 expenditures, and \$8.6 million, or 13.2% of its 2010 expenditures.

When implementing ESAP, the Commission requires the utilities to use a statewide P&P Manual, jointly developed by the Commission and the utilities for determining when and how to install the measures. The manual used for program years 2009 and 2010 was revised in August of 2010. Guidelines covered in this manual include, among other things: contractor eligibility; customer income and structural eligibilities; customer outreach and relations; program measures; minor home repairs; measure installation policies and procedures; inspections; and natural gas testing. In addition, SCE internally developed its own specific Policies and Procedures Program Manual to ensure proper management of its ESAP.

SCE operated its ESAP utilizing a computerized information system called the Energy Management Assistance Partnership System (EMAPS). EMAPS is an internet-based system used by SCE's staff, its customers, and its contractors for access to all ESAP-related information. EMAPS enables SCE to access and view a wide range of ESAP processes in real time. This functionality, according to SCE, enables it to manage ESAP more efficiently and effectively.

The ESAP electric appliances/measures and requirements are preinstalled in the EMAPS system. This enables EMAPS to play a pivotal role in the management of ESAP. Activities performed by EMAPS include: coordinating and processing customer applications; tracking installation and inventory management; and scheduling of work and processing of payments.

According to SCE, to ensure EMAPS activities are well coordinated and supervised, activities performed in EMAPS are sequentially organized and broken down into tasks called Work Flow Steps (WFS). Each WFS has to be completed, reviewed and authorized electronically before moving on to the next step. For example, an application process consists of four work flow

³ See subparagraph 4(b)(3)(i) – (iii), OP 4, of D.10-10-008 for a complete list of the exceptions.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

steps: (1) enrollment; (2) assessment; (3) work authorization/installation; and (4) inspection. Each of these four work flow steps has to be completed and reviewed before moving on to the next succeeding step.

C.3 Electric Appliance Cost Category

For program years 2009 and 2010, the Commission authorized various types of measures and appliances for replacement at customers' dwellings including Refrigerators, Evaporative Coolers, Central Air Conditioners, Pool Pumps, Compact Fluorescent Lamps (CFLs), Torchieres, Porch Light Fixtures, Heating, Ventilation and Air Conditioning (HVAC) Maintenance, Room Air Conditioners/Heat Pumps, and Evaporative Cooler Maintenance. In the following table, UAFCB provides the breakdown of the electric appliances/measures expenses SCE reported as incurred in 2009 and 2010.

Table C-2
Electric Appliance Expenditures, as Reported by SCE
Examination Period: January 1, 2009 through December 31, 2010

Measure/Appliance	2009		2010	
	Amount	%	Amount	%
Refrigerators	\$15,209,589	44%	\$20,196,952	41%
Evaporative Coolers	8,089,839	23%	13,114,456	27%
Central A/C Replacement	7,434,093	22%	8,965,549	18%
Pool Pumps	1,207,245	3%	2,608,847	5%
Compact Fluorescent Lamps	984,310	3%	1,609,257	3%
Room A/C Replacement	746,313	2%	976,478	2%
Duct Sealing	409,400	1%	521,150	1%
Central A/C Maintenance	112,580	0%	265,203	1%
Central Heat Pump	208,770	1%	270,211	1%
Evaporative Cooler Maintenance	60,480	0%	200,560	0%
Fluorescent Torchiera Lamp	64,651	0%	153,621	0%
Programmable Thermostat	-	0%	140,399	0%
Exterior Hard-wired CFL Fixtures	46,665	0%	66,300	0%
Other HVAC, Dual-Pack Units	800	0%	382	0%
Short paid invoices ⁴	-	0%	(14,786)	0%
Returned Appliances ⁵	-	0%	(199,845)	0%
Total	<u>\$34,574,735</u>	<u>100%</u>	<u>\$48,874,734</u>	<u>100%</u>

C.4 General Administrative Cost Category

SCE spent \$3.1 million, or 72% of the 2009 funds allocated for administrative costs, and \$4.1 million, or 93 % of the 2010 funds allocated. The Commission did not place any specific caps the utilities should spend on administrative function. However, in D.01-12-020, the Commission provided guidance on program reporting requirements and the definition of costs.⁶ SCE updated the definition of administrative costs in January 2002 when it filed updates to the reporting

⁴ On occasion SCE recorded the amount shown on the invoice and made subsequent adjustments when the amounts paid were less than the invoiced amount.

⁵ These were appliances that SCE purchased, did not install in customer homes and returned to the vendors.

⁶ D.01-12-020, OP No. 3, page 75.

Examination of SCE's 2009 and 2010 ESAP
July 17, 2013

requirements manual which had previously been adopted.⁷ It is not clear to the UAFCB when the updates were authorized by the Commission. It would be appreciated if SCE would direct the UAFCB to the decision or Resolution authorizing the updates. SCE should provide the information to UAFCB 90-day after it receives this memo report from it for redaction of confidential matters.

Administrative costs are split into direct and indirect costs and include salaries, materials, advertising, computer support, overheads and regulatory costs. Direct administrative costs are costs that can be directly identified to specific programs, e.g. ESAP, while indirect costs are costs that are not directly identifiable and are thus subject to cost allocation processes. Although D. 08-11-031, as modified by D.10-10-008, generally allows funds shifting of up to 15% of the authorized budget without prior written approval from the ALJ, shifting funds into or out of administrative costs, among several other exceptions, requires prior written approval.⁸

In program years 2009 and 2010, SCE's ESAP administrative expenses were 7% and 6% of the respective year's ESAP budget. This means that the remaining 93% and 94%, respectively, represent the costs of core services, as opposed to general administration. In the following table, UAFCB provides details of SCE's ESAP administrative expenditures.

Table C-3
ESAP General Administrative (G&A) Expenses, as Reported by SCE
Examination period: January 1, 2009 through December 31, 2010

Category	2009	% of Total	2010	% of Total
Labor	\$ 1,343,048		\$ 1,631,869	
Non Labor	1,061,230		1,308,123	
Contractor Costs	705,394		1,195,334	
Total	<u>\$ 3,109,672</u>	<u>7%</u>	<u>\$ 4,135,326</u>	<u>6%</u>
Total Program	<u>\$43,956,426</u>		<u>\$65,126,881</u>	

⁷ Refer to Appendix B – Low Income Definitions-RR2, January 2002, Reporting Category Definitions.

⁸ D.10-10-008, OP No. 4(b)(3)(i), pp. 9-11.